

REPORT OF
ASSOCIATION EXAMINATION
OF
MUTUAL SAVINGS FIRE INSURANCE COMPANY
DECATUR, ALABAMA
AS OF
DECEMBER 31, 2000
PARTICIPATION:
SOUTHEASTERN ZONE
ALABAMA

TABLE OF CONTENTS

	<u>Page</u>
SCOPE OF EXAMINATION	2
ORGANIZATION AND HISTORY	3
MANAGEMENT AND CONTROL	4
Stockholders	4
Board of Directors	4
Officers	4
Board Committees	5
Conflict of Interest	6
CORPORATE RECORDS	6
HOLDING COMPANY AND AFFILIATE MATTERS	6
HOLDING COMPANY REGISTRATION	7
Organizational Chart	7
Management and Service Agreements	8
Consolidated Tax Allocation Agreement	10
Dividends to Stockholders	10
FIDELITY BONDS AND OTHER INSURANCE	11
Fidelity Coverage	11
Other Insurance	11
EMPLOYEE AND AGENTS WELFARE	11

SPECIAL DEPOSITS	12
FINANCIAL CONDITION/GROWTH OF THE COMPANY	12
MARKET CONDUCT ACTIVITIES	12
Plan of Operation	12
Territory	13
Policy Forms and Underwriting	13
Dividends to Policyholders	13
Advertising and Marketing	14
Claims Payment Practices	14
Policyholder Complaints	14
Compliance with Agents Licensing Requirements	14
REINSURANCE	14
Reinsurance Assumed	14
Reinsurance Ceded	15
ACCOUNTS AND RECORDS	15
NOTES TO THE FINANCIAL STATEMENTS	20
CONTINGENT LIABILITIES AND PENDING LITIGATION	21
SUBSEQUENT EVENTS	21
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS	21
COMMENTS AND RECOMMENDATIONS	22
CONCLUSION	24

STATE OF ALABAMA
City of Decatur

James L. Hattaway being first duly sworn, upon his oath deposes and says:

THAT he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of **Mutual Savings Fire Insurance Company** for the period from January 1, 1997 through December 31, 2000;

THAT the following 24 pages constitute the report to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

James L. Hattaway, III

James L. Hattaway, CFE
(Examiner in Charge)

Subscribed and sworn to before the undersigned authority this 12th day of April, 2002.

Sandra V. Roden

(Signature of Notary Public)

Sandra V. Roden Notary Public

(Print Name)

in and for the State of Alabama

My commission expires June 30, 2003



Don Siegelman
GOVERNOR

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE**

201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 269-3550
Facsimile: (334) 241-4192

D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

April 12, 2002

Honorable Diane Koken, Chairman, Examination Oversight Committee
Commissioner, Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

Secretary, Southeastern Zone
Honorable Alfred W. Gross
Commissioner, Virginia Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable D. David Parsons, Commissioner of Insurance
State of Alabama
Post Office Box 303350
Montgomery, AL 36130-3350

Dear Commissioners:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of the

MUTUAL SAVINGS FIRE INSURANCE COMPANY

at its home office located at 2801 Highway 31 South, Decatur, Alabama 35603. The report of examination is submitted herewith.

Where the description "Company" or "MSFIC" appears herein, without qualification, it will be understood to indicate **Mutual Savings Fire Insurance Company**.

SCOPE OF EXAMINATION

The Company was last examined for the five year period ended December 31, 1996, by examiners from Alabama representing the NAIC's Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2000, and was conducted by examiners from Alabama representing the NAIC's Southeastern Zone. The examination was conducted concurrently with the examination of the Company's parent, Mutual Savings Life Insurance Company (MSLIC), Decatur, Alabama. Where deemed appropriate, transactions subsequent to 2000 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2000, as shown in the Financial Statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code or the Insurance Department's rules and regulations, or other insurance laws or rules, or which were deemed by the examiners to require comments and/or recommendations.

An office copy of the Company's filed Annual Statement for the year 2000 was compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a review of the Company's plan of operation, territory, policy forms and underwriting practices, treatment of policyholders and claimants, advertising, and compliance with agents' licensing requirements.

The Company's accounts were examined by Deloitte Touche LLP, Certified Public Accountants, for the year 2000. For the years 1999 and 1998, the Company's accounts were examined by Ernst & Young LLP, Certified Public Accountants. For the year 1997, the Company's accounts were examined by KPMG Peat Marwick LLP, Certified Public Accountants. Audit reports, management letters, certain audit confirmations and certain audit work papers were made available to the examiners. The CPA's work papers were reviewed and, when deemed appropriate, used in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2000.

ORGANIZATION AND HISTORY

The Company was incorporated in Decatur, Alabama under the laws of the State of Alabama on September 16, 1971. The Certificate of Incorporation stated that the objects and purposes of the corporation were "to engage in, maintain and transact a general fire and casualty insurance business, and to do all things necessary and incidental thereto." The Certificate of Incorporation was filed and recorded in the office of the Judge of Probate of Morgan County, Alabama.

The Certificate of Incorporation provided that the total authorized capital stock shall be 1,000,000 shares of common stock with a par value of \$1.00 per share. The Company was capitalized initially with \$200,000 of paid-up capital and \$300,000 of contributed surplus. On July 15, 1975, the Company increased its paid-up capital to \$500,000 and its contributed surplus to \$500,000 through the sale of additional shares of common stock. The Company increased its common stock par value to \$3.00 per share on December 18, 1992; therefore, with 500,000 shares issued and outstanding, its paid-up capital increased to \$1,500,000, which was the amount at December 31, 2000. The Company also had \$1,517,145 in unassigned surplus as of December 31, 2000.

On December 4, 1998, Primesco, Inc. acquired 100% of the outstanding common stock of Mutual Savings Life Insurance Company, the sole stockholder of the Company. As of December 31, 2000, the Company was a

wholly owned subsidiary of Mutual Savings Life Insurance Company, which was a wholly owned subsidiary of Primesco, Inc., a Delaware corporation.

MANAGEMENT AND CONTROL

The By-laws, as amended, provide that the business and affairs of the Company shall be managed by its Board of Directors, which will consist of not less than three directors. Directors are elected at the annual meeting of the stockholder to serve until the next annual meeting and until their successors are duly elected and qualified. Officers of the Company are elected by the newly elected Board of Directors, at a meeting held immediately after the annual meeting of the stockholder.

Stockholders

The Company is a wholly owned subsidiary of its sole stockholder, Mutual Savings Life Insurance Company.

Board of Directors

<u>Director/Address</u>	<u>Principal Occupation</u>
Charles Larimore Whitaker Birmingham, Alabama	Chairman, President, CEO Mutual Savings Life Insurance Company
Walter Jones Hughes Birmingham, Alabama	Executive Vice President, COO Mutual Savings Life Insurance Company
Don Francis Morrison Decatur, Alabama	Senior Vice President Mutual Savings Life Insurance Company

Officers

The following officers were elected or reelected to their respective positions on December 12, 2000 by an Action by Written Consent of the Board of Directors:

Charles Larimore Whitaker	Chairman of the Board, President & CFO
Walter Jones Hughes	Chief Operating Officer & Executive Vice President – Marketing
Don Francis Morrison	Senior Vice President – Operations and Secretary
Glenn Alan Lansdell	Senior Vice President and General Counsel
George Arthur Armour	Regional Vice President
Larry Joe Burton	Regional Vice President
Woodie Lee Melton	Regional Vice President
Bobby Jefferson Outlaw	Regional Vice President
Joseph Calvin Chapman	Vice President
Robert Elerby Colburn	Vice President
Kenneth O’Neal Jordan	Vice President
Ronald John Koch	Vice President, Treasurer & CFO
James Richard Lown	Vice President
Joe Michael Moore	Vice President
Stephen Richard O’Shea	Vice President
Murry Joe Woodard	Vice President
Susan Elizabeth Adams	Assistant Vice President and Assistant Treasurer
Frankie Drinnen Graves	Assistant Vice President
Judy Oakley Hagen	Assistant Vice President
Deborah Marie Holmes	Assistant Vice President
Bruce Homer Lea	Assistant Vice President
Roger Don Schaffer	Assistant Vice President
James Harlon Wallace, Jr.	Assistant Vice President
David Carr Weatherford	Assistant Vice President
Thomas Russell White	Assistant Vice President
Sandra Vest Roden	Assistant Secretary
Roger H. Moss, Jr.	Medical Director

Board Committees

The Company has no committees of the Board of Directors.

Conflict of Interest

The Company requires conflict of interest statements to be completed annually by all directors and officers. The purpose of the statements is to disclose any conflicts between the Company's interest and the interest of its directors and officers. A review of the statements signed during the examination period indicated that no material conflicts had been reported.

CORPORATE RECORDS

The Articles of Incorporation and By-laws and amendments thereto were inspected during the course of the examination.

The Company had one amendment to its Articles of Incorporation during the examination period. On February 26, 1998, the number of directors was amended to "not less than three directors." The amendment was properly authorized and approved by Company management.

The Company By-laws were amended and restated December 18, 1997. The amended and restated By-laws were properly authorized and approved.

The Company's Board of Directors did not approve the investment advisory agreement with two firms authorized to engage in investments on behalf of the Company. The Company is not complying with Section 27-41-5, Code of Alabama 1975, as amended, which requires that all investments be authorized, approved, or ratified by the Board of Directors and that the Board actions be recorded on a regular basis.

For all other matters, the minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

HOLDING COMPANY AND AFFILIATE MATTERS

During the course of the examination, a detailed listing of the items comprising the Company's commissions was requested. The Company provided a combined listing of the Company's commissions and the commissions of Mutual Savings Life Insurance Company. The Company provided a schedule of commissions per line of business that allocated commission amounts to each Company. A detailed listing that listed each item comprising Mutual

Savings Fire Insurance Company commissions could not be reconstructed. The Company is not complying with Section 27-29-5 (4), Code of Alabama 1975, as amended, which states, "the books, accounts, and records of each party will be so maintained as to clearly and accurately disclose the precise nature and details of the transaction."

Schedule Y of the Annual Statement did not include the ultimate controlling person as required by the NAIC Annual Statement Instructions.

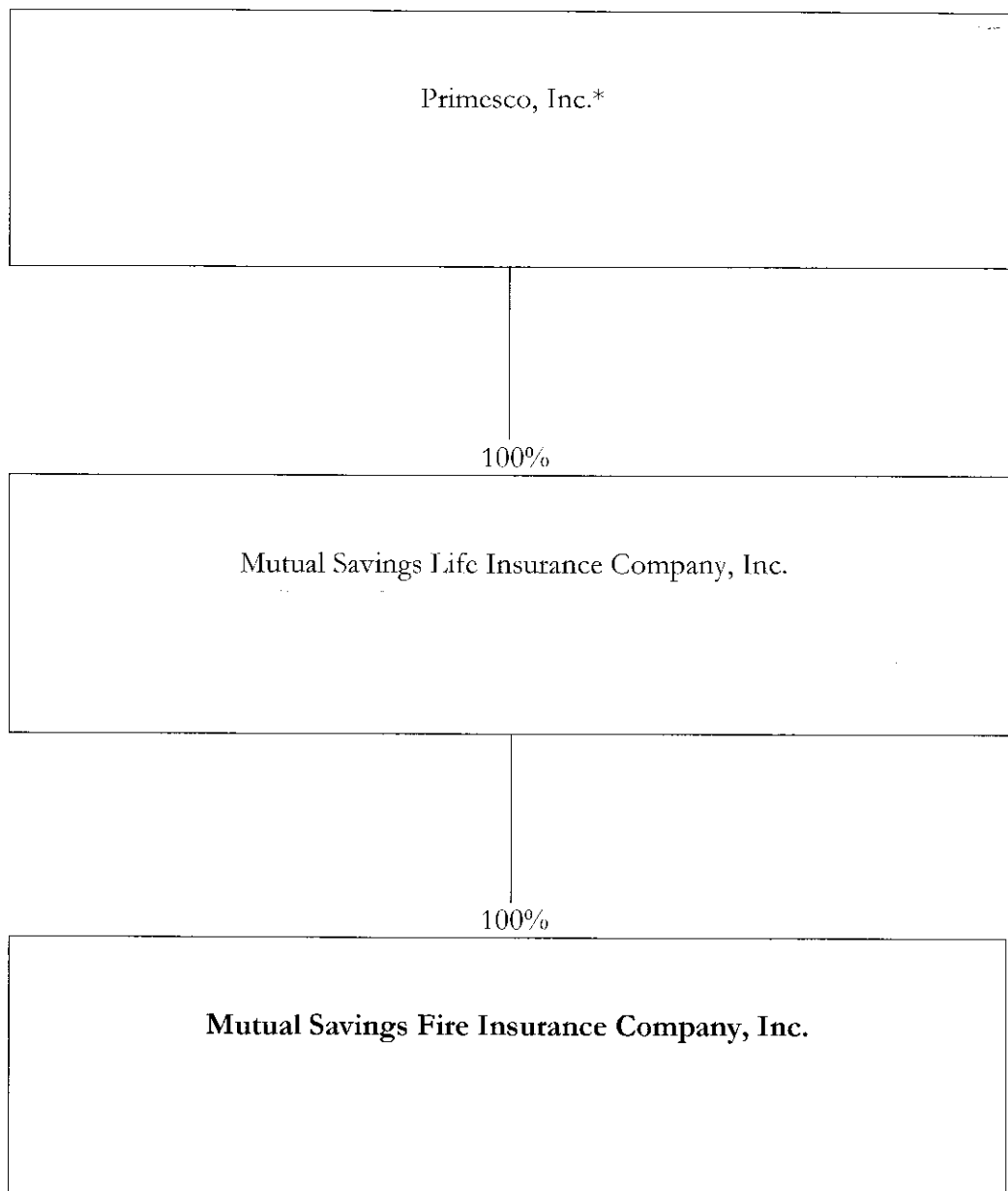
HOLDING COMPANY REGISTRATION

The Company is deemed to be subject to the Alabama Insurance Holding Company regulatory act as defined in Section 27-29-1, Code of Alabama, 1975, as amended. In connection therewith, the Company's parent, Mutual Savings Life Insurance Company is registered with the Alabama Department of Insurance on the Company's behalf, as a registrant of an insurance holding company system.

Organizational Chart

The organizational chart on the following page depicts the insurance holding company system with which the Company was affiliated as of December 31, 2000.

Primesco, Inc. owned 100% of the Company's outstanding common capital stock at December 31, 2000. J. O. Hambro Capital Management, Ltd and C. Larimore Whitaker were not identified on Schedule Y-Part 1. The failure to include these ultimate controlling person(s) conflicted with the NAIC Annual Statement Instructions. Control, according to Section 27-29-1(3), Code of Alabama 1975, as amended, "shall be presumed to exist if any person, directly or indirectly owns, controls, holds with the power to vote, or holds proxies representing five percent or more of the voting securities of any other person." At December 31, 2000, various funds and nominees of J. O. Hambro Capital Management, Ltd and C. Larimore Whitaker owned 25.68% and 13.59%, respectively, of Primesco, Inc.'s common capital stock including voting rights.



*Shareholders of Primesco, Inc. with an ownership of greater than 10% of common capital stock were: C. Larimore Whitaker with 191,622 shares, or 13.59%, and various funds and nominees of J. O. Hambro Capital Mgmt. with 362,143 shares, or 25.68%.

Management and Service Agreements

The Company provided a copy of a January 2, 1974 service agreement between Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company. The Company was unable to provide evidence that this agreement

was approved by the Alabama Department of Insurance as required by Section 27-29-5, Code of Alabama 1975, as amended. In addition, this agreement was not disclosed in the 2000 Form B as required by Section 27-29-4, Code of Alabama 1975, as amended.

Under the terms of the agreement, MSLIC agreed to be a representative of the Company for the marketing, underwriting, and servicing of its business. All employees and licensed field personnel were provided by and were employees of MSLIC. The Company agreed to pay all expenses that could be identified as its direct expenses and for services necessary for the proper operation and administration of the Company.

Under a separate Management Services Agreement, dated October 19, 1999, between Primesco, Mutual Savings Life Insurance Company (MSLIC) and Mutual Savings Fire Insurance Company: The fees are to be calculated as discussed below and then allocated 90% to MSLIC, and 10% to the Company.

MSLIC pays the salaries of all officers and employees of the entire holding company group. In addition to the salaries, MSLIC pays a 15% "fee" to the parent company (15% of the salaries of all employees in the Holding Company). MSLIC management states, "The fee serves two functions. First while MSLIC provides all salary and benefits to its employees, it is recognized by MSLIC that it receives services from its parent, and there are duties and functions performed by persons who act as executive officers of MSLIC and Primesco, which have a value above and beyond the regular payroll. Second, the 15% fee is a more direct and simple way of recognizing the economic effect among the subsidiaries of Primesco's responsibilities for financing and investment and other specified functions of the consolidated enterprises." Management did not provide supporting evidence from cost analysis or time studies that the fees were fair and reasonable. In addition to the 15% fee, MSLIC pays a .4% fee (.4% of the fair market value of the average assets of the Company) for "advice regarding the investment portfolio and advice regarding the 401-K accounts of employees."

The contract contained a provision that the Company irrevocably agrees to pay the fees included in the agreement. Management agreed during the course of the examination to remove the irrevocable language from the contract.

The contract required that Primesco, Inc. submit invoices monthly to the Company, describing in reasonable detail the services provided, the charges

related thereto and other direct expenses to be reimbursed. Furthermore, it states that the Company must remit payment, within thirty days of receipt of the invoice, to Primesco. In addition, the agreement provided that Primesco may waive any part or all of the fees payable to it under this agreement. Primesco must make such waiver in writing. During the period covered by this examination, the Company did not receive detailed monthly invoices from Primesco. No fees (relating to this agreement) were paid by the Company during the period covered by this examination. Management did not provide written support for the waiver of the fees and the waiver was not disclosed in the Form B filings as required by Section 27-29-4, Code of Alabama 1975, as amended.

Consolidated Tax Allocation Agreement

The examiner reviewed the intercompany income tax agreement, which was in effect as of 12/31/2000. The Company maintains that the agreement is still in effect but the Company was ineligible to participate because of having a new parent company, effective December 4, 1998.

After subsequent discussions with the Company, the Company agreed to cancel the agreement. The agreement was cancelled at the November 12, 2001 Board meeting.

Dividends to Stockholders

The Company paid the following dividends during the period covered by this examination:

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
\$-0-	\$340,000	\$1,000,000	\$850,000

The only extraordinary dividend paid during the period covered by this examination was in 1999. This dividend was appropriately reported to and approved by the Alabama Department of Insurance.

The \$340,000 dividend in 1998 was paid without giving the Alabama Department of Insurance ten days prior notice as required by Section 27-29-5 (g)(2), Code of Alabama 1975, as amended.

FIDELITY BONDS AND OTHER INSURANCE

Fidelity Coverage

At December 31, 2000, the Company did not have a fidelity bond in force that provided coverage for protection against dishonest or fraudulent acts of officers and Mutual Savings Life Insurance Company employees acting on behalf of the Company. Based on calculations using the guidelines in the NAIC Financial Examiners' Handbook, the recommended minimum amount of fidelity insurance coverage should be between \$100,000 and \$125,000.

Other Insurance

At December 31, 2000, the Company was an additional named insured on the following policies issued to Mutual Savings Life Insurance Company:

- Commercial Property and General Liability Policy
- Commercial Automobile Policy
- Commercial Umbrella Policy
- Boiler and Machinery Policy
- Directors and Officers Liability Policy
- Fiduciary Liability Policy

The coverages and limits carried by the Company were reviewed and appeared to be reasonable.

EMPLOYEE AND AGENTS WELFARE

All personnel were employees of Mutual Savings Life Insurance Company, which provided services to the Company under the terms of the Management Agreement.

SPECIAL DEPOSITS

In compliance with statutory requirements for transacting insurance business in the respective jurisdictions, the Company maintained the following deposits with the respective statutory authorities at December 31, 2000.

<u>State</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Alabama	\$125,000	\$124,709	\$129,000
Georgia	100,000	99,691	102,125
Louisiana	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Totals	<u>\$245,000</u>	<u>\$244,400</u>	<u>\$251,125</u>

The above deposits were confirmed with the respective custodians.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review.

<u>Year</u>	<u>Premiums Earned</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
1996	\$4,727,461	\$4,662,766	\$1,372,038	\$3,290,728
1997	4,730,477	4,838,944	1,427,204	3,411,740
1998	4,755,099	4,784,823	1,536,181	3,248,642
1999	4,522,079	4,516,469	1,180,123	3,336,346
2000	4,318,698	4,196,261	1,179,116	3,017,145

Data for the years 1996 and 2000 are per examination. Data for the remaining years were obtained from the Company's Annual Statements.

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company's policies are sold and serviced by captive agents of the parent company, Mutual Savings Life Insurance Company (MSLIC). The Company had 379 licensed agents during the final quarter of the examination period.

At December 31, 2000, the MSLIC's sales organization consisted of an agency sales and service field force, which was responsible for the marketing and

servicing of its various lines of insurance products. The insurance products are offered to low-to-middle income households through a home service approach. The agents are assigned territories called "Agencies" where they contact customers in their homes to sell insurance and collect premiums. This method of marketing requires frequent face-to-face contact. The field force is divided into districts. Each district consists of agents, management and support personnel, all employees of the MSLIC. The district managers are under the supervision of regional vice presidents. At December 31, 2000, MSLIC employed 27 district managers, 97 sales managers and 463 agents.

The field management and agents are compensated by a service commission based on agency size and sales commissions, based on newly produced business and retention. The sales commission varies according to the type policy written.

Territory

The Company was licensed to transact business in the following states during the period covered by the examination:

Alabama	Louisiana
Georgia	Mississippi

Certificates of authority from the respective states were inspected and found to be in order.

Policy Forms and Underwriting

The Company's lines of business include fire and allied lines insurance. The Company's direct business is sold and serviced by Mutual Savings Life Insurance Company agents and managers who are licensed to write business for the Company. The Company's policy contracts currently being written are limited to \$20,000 per dwelling and \$10,000 contents coverage.

Dividends to Policyholders

No policyholder dividends were paid during the examination period. The Company had no participating policies in force.

Advertising and Marketing

The Company's advertising was limited to printed sales brochures that were distributed to Company field agents. The brochures were descriptive and were not misleading. The brochures indicated the dwelling and contents coverage for fire and allied lines coverage.

Claims Payment Practices

Samples of claims filed with the Company during the examination period, including resisted claims and claims closed without payment were reviewed. Claims sampled were reviewed with regard to compliance with policy provisions, timeliness of payment, and adequacy of documentation. No noteworthy discrepancies were noted.

Policyholder Complaints

All complaints and inquiries regarding the Company during the period under examination were selected for review from the Company's complaint register. Complaints and inquiries were found to be principally due to inquiries regarding agents of the Company, misunderstandings of policy provisions and benefits, and questions concerning claim payments. The review indicated that the Company demonstrated an effort to equitably resolve policyholder complaints in a timely manner.

Compliance with Agents Licensing Requirements

The examiners selected a sample of commission payments and compared the agents receiving commissions to the agent license renewal rosters. Based on this comparison, it appears the Company only paid commissions to properly licensed agents.

REINSURANCE

Reinsurance Assumed

The Company did not assume any reinsurance during the examination period.

Reinsurance Ceded

The examiners reviewed the two reinsurance treaties that were effective January 1, 2000 and in effect at year-end 2000. The examiners noted that Schedule F - Part 3 was not completed in accordance with the Annual Statement Instructions. Each Lloyd's Syndicate must be listed separately as to their portion of the risk. In addition, the Company listed Hart RE Company as a reinsurer when the actual reinsurer is actually Hartford Fire Insurance Company. It was also noted that the Company listed TIG Reinsurance of Connecticut as an authorized reinsurer. The Alabama Department of Insurance has no record of TIG being licensed in Alabama or an accepted reinsurer. However, it was noted that the Company was not taking a reserve credit for its reinsurance.

ACCOUNTS AND RECORDS

The Company's principal accounting records are maintained by computer with certain subsidiary records maintained manually. Other subsidiary records are maintained by Mutual Savings Life Insurance Company's data processing department, which maintains many of the record keeping functions of the Company under a management agreement. Generally, the Company's records were adequate to reflect the Company's transactions during the examination period and its financial condition as of December 31, 2000.

The Company was audited for the year 2000 by the certified public accounting firm of Deloitte & Touche, LLP. For the other three examination years, the Company was audited twice by Ernst & Young, LLP, and KPMG Peat Marwick, LLP.

The Company's reserves were certified, as of December 31, 2000, by Jan A. Lommele, FCAS, MAAA, FCA, of Deloitte & Touche, Actuarial & Insurance Consulting Group.

Any additional comments regarding the Company's accounts and records are included in this report beginning on page 20 under the caption "NOTES TO FINANCIAL STATEMENTS."

FINANCIAL STATEMENTS INDEX

	<u>Page</u>
Statement of Assets, Liabilities, Surplus and Other Funds.....	17
Summary of Operations.....	18
Reconciliation of Capital and Surplus.....	19

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS FIRE INSURANCE COMPANY
Statement of Assets, Liabilities, Surplus and Other Funds
For the Period Ended December 31, 2000

	Ledger Assets	Non- ledger Assets	Non- Admitted Assets	Admitted Assets
<u>ASSETS</u>				
Bonds	\$3,718,221			\$3,718,221
Cash and short-term investments (Note 1)	177,178			177,178
Premiums and agents' balances in course of collection (Note 2)		\$212,393		212,393
Interest, dividends and real estate income due & accrued		69,647		\$69,647
Receivable from parent, subsidiaries and affiliates	18,822			18,822
Aggregate write-ins for other than invested assets	<u>268,025</u>	<u>0</u>	<u>268,025</u>	<u>0</u>
Total Assets	<u>\$4,182,246</u>	<u>\$282,040</u>	<u>\$268,025</u>	<u>\$4,196,261</u>
<u>LIABILITIES</u>				
Losses				\$ 297,893
Loss adjustment expenses				12,926
Other expenses				51,000
Taxes, licenses and fees				14,605
Federal income taxes				9,131
Unearned premiums				268,863
Amounts withheld or retained for the account of others				24,698
Aggregate write-ins for liabilities				<u>500,000</u>
Total Liabilities				<u>\$1,179,116</u>
<u>SURPLUS AND OTHER FUNDS</u>				
Common capital stock	\$1,500,000			
Unassigned funds (Note 3)	<u>1,517,145</u>			
Surplus as Regards Policyholders				<u>3,017,145</u>
Total Liabilities, Surplus and Other Funds				<u>\$4,196,261</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS FIRE INSURANCE COMPANY
Summary of Operations
For the Periods Ended December 31,

	2000	1999	1998	1997
Underwriting income:				
Premiums earned	<u>\$4,318,698</u>	<u>\$4,522,079</u>	<u>\$4,755,099</u>	<u>\$4,730,477</u>
Deductions:				
Losses incurred	\$1,834,625	\$2,018,177	\$3,216,628	\$2,768,300
Loss expenses incurred	133,800	140,778	175,622	173,646
Other underwriting expenses				
Incurred	1,668,869	1,854,888	1,999,633	1,848,606
Aggregate write-ins for underwriting deductions	<u>0</u>	<u>155,000</u>	<u>(175,000)</u>	<u>0</u>
Total underwriting deductions	<u>\$3,637,294</u>	<u>\$4,168,843</u>	<u>\$5,216,883</u>	<u>\$4,790,552</u>
Net underwriting gain (loss)	<u>\$ 681,404</u>	<u>\$ 353,236</u>	<u>\$ (461,784)</u>	<u>\$ (60,075)</u>
Investment income:				
Net investment income earned	\$ 264,526	\$ 931,055	\$ 622,272	\$ 267,804
Net realized capital gains (losses)	<u>(5,076)</u>	<u>47,078</u>	<u>0</u>	<u>0</u>
Net investment gain (loss)	<u>\$ 259,450</u>	<u>\$ 978,133</u>	<u>\$ 622,272</u>	<u>\$ 267,804</u>
Other income:				
Aggregate write-ins for miscellaneous income	<u>\$ 0</u>	<u>\$ 100</u>	<u>\$ 2</u>	<u>\$ 112</u>
Total other income	<u>\$ 0</u>	<u>\$ 100</u>	<u>\$ 2</u>	<u>\$ 112</u>
Net income before dividends and taxes	\$ 940,854	\$1,331,469	\$ 160,490	\$ 207,841
Federal income taxes incurred	<u>393,637</u>	<u>69,546</u>	<u>0</u>	<u>65,000</u>
Net income	<u>\$ 547,217</u>	<u>\$1,261,923</u>	<u>\$ 160,490</u>	<u>\$ 142,841</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS FIRE INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
For the Periods Ended December 31,

	2000	1999	1998	1997
Surplus as regards policyholders January 1,	<u>\$3,336,346</u>	<u>\$3,248,642</u>	<u>\$3,411,740</u>	<u>\$3,290,728</u>
Net Income	\$ 547,217	\$1,261,923	\$ 160,490	\$ 142,841
Net unrealized capital gains (losses)		55,102		
Change in non-admitted assets	(16,418)	(229,321)	16,412	(21,829)
Dividends to stockholders	<u>(850,000)</u>	<u>(1,000,000)</u>	<u>(340,000)</u>	<u>0</u>
Change in surplus as regards Policyholders December 31,	<u>\$ (319,201)</u>	<u>\$ 87,704</u>	<u>\$ (163,098)</u>	<u>\$ 121,012</u>
Surplus as regards policyholders December 31,	<u>\$3,017,145</u>	<u>\$3,336,346</u>	<u>\$3,248,642</u>	<u>\$3,411,740</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Cash and short-term investments

\$ 177,178

The amount of the captioned asset is the same as reported in the Company's 2000 Annual Statement.

According to SSAP No.45 (effective January 1, 2001), relating to repurchase agreements, the Company shall receive as collateral, transferred security having a fair value at least equal to 102% of the purchase price paid by the reporting entity for the securities. At year-end 2000, the price paid by the Company under the repurchase agreement was \$254,215 and the total market value of the collateral was \$254,217. The required amount of collateral should have been \$259,299. Also, the Company did not make a disclosure in the financial statements regarding its policy for requiring collateral or other security on its repurchase agreement.

Note 2 – Premiums and agents' balances in course of collection

\$ 212,393

The captioned amount is the same as reflected by the Company in its 2000 Annual Statement.

Commissions of \$20,277, relating to premiums and agents' balances in course of collection, were netted in the line item, "Receivable from parent, subsidiaries, and affiliates," instead of reporting premiums and agents' balances in course of collection net of commissions as required by the NAIC Annual Statement Instructions.

This reclassification has not been made in this Report of Examination due to the immaterial amount of the error.

Note 3 - Unassigned funds (surplus)

\$1,517,145

The amount of unassigned funds per examination is the same as that reported in the Company's 2000 Annual Statement. Variances determined by the examination were all deemed to be immaterial in amount and no related changes have been made in the financial statements of this report.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The Company had no outstanding litigation as of December 31, 2000. The Company established a liability of \$50,000 for unknown or unreported liabilities, which was included with the amount reported for other expenses on the Annual Statement Balance Sheet.

The Company's President and its Treasurer executed a letter of representation attesting that unreported liabilities and contingencies did not exist as of December 31, 2000.

SUBSEQUENT EVENTS

It was noted that the Company had a consolidated income tax allocation agreement with Mutual Savings Life Insurance Company, but was filing on an individual basis. The income tax allocation agreement was cancelled by the companies involved during the course of the examination.

One of the Company's bonds issued by an Enron subsidiary was written down during the last quarter of 2001 by \$120,000 due to a permanent decline in value. The Company did not disclose the recognition of this impairment loss as required by the NAIC Annual Statement Instructions.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was made to determine whether the Company had complied with the recommendations made in the last examination report. The review indicated that the Company did not comply with the previous recommendation to obtain at least the minimum amount of fidelity bonds coverage on its officers and directors in accordance with the NAIC Financial Examiner's Handbook. The recommendation is repeated in this report. The Company was found to be in compliance with all other recommendations resulting from the examination of the Company as of December 31, 1996.

COMMENTS AND RECOMMENDATIONS

Corporate Records – Page 6

It is recommended that the Company's Board of Directors approve investments as required by Section 27-41-5, Code of Alabama 1975, as amended.

Holding Company and Affiliate Matters – Page 6

It is recommended that the Company keep complete and accurate records of the expenditures comprising commissions in accordance with Section 27-29-5, Code of Alabama 1975, as amended.

It is recommended that the Company reflect the relationships of the holding company group to the ultimate controlling person in Schedule Y of its Annual Statements.

Management and Service Agreements – Page 8

It is recommended that the Company submit the service agreement between Mutual Savings Fire Insurance Company and Mutual Savings Life Insurance Company for approval as required by Section 27-29-5, Code of Alabama 1975, as amended.

It is recommended that the Company disclose all affiliated management and service agreements and the related fees in Form B filings as required by Section 27-29-4, Code of Alabama, as amended.

It is noted that the Company did not maintain supporting cost analysis or time studies demonstrating that the fees paid to its parent were fair and reasonable.

It is recommended that the Company operate in accordance with the terms of the agreement by requiring monthly invoices from Primesco, paying the required fees thirty days after receipt of the invoices, and requiring written notices regarding waivers.

Dividends to stockholders – Page 10

It is recommended that the Company not pay dividends to stockholders without giving the Alabama Department of Insurance ten days prior notice as required by Section 27-29-5 (g)(2), Code of Alabama 1975, as amended.

Fidelity Bonds – Page 11

It is recommended that the Company obtain at least the minimum amount of fidelity coverage for protection against dishonest or fraudulent acts of the Company's employees in accordance with the NAIC Financial Examiners Handbook.

Reinsurance – Page 14

It is recommended that the Company complete Schedule F - Part 3 in accordance with the NAIC Annual Statement Instructions by including all Lloyd's syndicates individually and accurately listing and classifying all reinsurers.

Cash and short-term investments – Page 20

It is recommended that the Company comply with the requirements of SSAP No. 45 regarding repurchase agreements and related transactions on all statutory financial statements issued after January 1, 2001.

Premiums and agents' balances in course of collection – Page 20

It is recommended that the Company report Premiums and agents' balances' in course of collection net of commissions as required by the NAIC Annual Statement Instructions.

Subsequent Events – Page 21

It is recommended that the Company make disclosures, as required by the NAIC Annual Statement Instructions, regarding the recognition of impairment losses on assets.

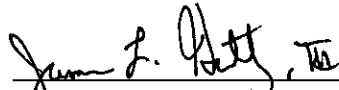
CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers of the Company and the employees of Mutual Savings Life Insurance Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, W. O. Myrick, CFE, Mary B. Packard, CFE, and F. Blasc Abrco, Rhonda B. Ball, Tisha R. Freeman, and Palmer W. Nelson, examiners, and David M. Shepherd, FCAS, MAAA, consulting actuary, all representing the Alabama Department of Insurance, participated in the examination of Mutual Savings Fire Insurance Company.

Respectfully submitted,



James L. Hattaway, III, CFE
Examiner-in-Charge
Department of Insurance
State of Alabama
Southeastern Zone, NAIC

**ALABAMA DEPARTMENT OF INSURANCE
EXAMINATION WORKSHEET**

NAIC EXAM NO: AL003-CG--	
COMPANY:	NAIC NO
MUTUAL SAVINGS FIRE INSURANCE CO	31178
TYPE COMPANY: <input type="checkbox"/> LIFE & HEALTH <input checked="" type="checkbox"/> PROPERTY & CASUALTY <input type="checkbox"/> HMO	
PERIOD ENDING: 12-31-00	
EXAMINER IN CHARGE: HARTAWAY	
DURATION: 6 MONTHS	
ACTUARY: Merline	
PLANNING START DATE (Date to Use for Company Call Letter): 4-9-01	
EXAMINATION START DATE (Use for ETS Only): 4-30-01	

DESCRIPTION OF ACTION	DATE	BY
EXAMINATION AUTHORIZATION LETTER	2-28-01	DK
ACTUARY NOTIFICATION LETTER	2-28-01	DK
NAIC EXAM TRACKING SYSTEM (ETS) CALL COMPLETED	2/28/01	JB
20 DAY LETTER	4-15-02	DK
HEARING REQUESTED		
ORDER ISSUED		
DATE PUBLIC	6-17-02	DK
30 DAY LETTER	6-17-02	DK
NAIC ETS EXAM COMPLETION DATA ENTERED		
DEPARTMENT CIRCULATION COPY DISTRIBUTED:	4-15-02	DK
OTHER:		
1-1-97 thru 12-31-00		
Received affidavits + responses to Recommendations	7-17-02	DK



Don Siegelman
GOVERNOR

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE**

201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 269-3550
Facsimile: (334) 241-4192

D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

February 28, 2001

Mr. C. Larimore Whitaker
Mutual Savings Fire Insurance Company
P. O. Box 2222
Decatur, AL 35609-2222

Re: Financial Examination As Of December 31, 2000

Dear Mr. Whitaker:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Jim Hattaway, CFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination is to commence on or about April 9, 2001, and will be conducted primarily in your offices. The expected duration of the examination is approximately six months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Mr. Hattaway regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of April 9, 2001, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

Richard L. Ford, CFE, CIE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk
Enclosures

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- 1. ☐ Addressee's Address
- 2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Mr. C. Larimore Whitaker
Mutual Savings Fire Insurance Co
P. O. Box 2222
Decatur, AL 35609-2222

4a. Article Number

7099 3400 0015 2327 4534

4b. Service Type

- ☐ Registered ☒ Certified
- ☐ Express Mail ☐ Insured
- ☒ Return Receipt for Merchandise ☐ COD

7. Date of Delivery

3/3/01

5. Received By: (Print Name)

Jimmy Day

6. Signature: (Addressee or Agent)

X

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.



Don Siegelman
GOVERNOR

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE**

201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 269-3550
Facsimile: (334) 241-4192

D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

February 28, 2001

Mr. Matthew P. Merlino
Merlino & Schofield, Inc.
3060 Holcomb Bridge Road, NW, Suite J
Norcross, GA 30071

**Re: Examination of Mutual Savings Fire Insurance Company
As of December 31, 2000**

Dear Mr. Merlino:

This letter is to request and authorize your participation in the examination of the above referenced companies for the purpose of computing reserves and making other valuations in your usual manner.

The examination will begin on or about April 9, 2001. The examination for these companies is being conducted in the companies' offices at 2801 Hwy 31 South, Decatur, AL 35603, and will cover the period ending December 31, 2000. The expected duration of the examination is approximately six months.

The Examiner-in-Charge will be Mr. Jim Hattaway. Please contact him at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (256) 552-7011.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

Re: Mutual Savings Fire

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Mr. Matthew P. Merlino
Merlino & Schofield Inc
3060 Holcomb Bridge Rd NW
Suite J
Norcross, GA 30071

4a. Article Number

7099 3400 0015 2327 4510

4b. Service Type

- ☐ Registered ☒ Certified
☐ Express Mail ☐ Insured
☒ Return Receipt for Merchandise ☐ COD

7. Date of Delivery

3-5-01

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X [Signature]

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

CONFIDENTIAL INTERNAL DOCUMENT
NOT FOR PUBLICATION, DISSEMINATION, OR
DISTRIBUTION OUTSIDE OF ALABAMA DEPARTMENT OF
INSURANCE

SUMMARY REVIEW MEMORANDUM

April 12, 2002

Mutual Savings Fire Insurance Company

Period from December 31, 1996 to December 31, 2000

Examiner-in-charge: James L. Hattaway, III, CFE 

Field Supervisor: Jack M. Brown, CFE

Chief Examiner: Richard Ford, CFE

An examination was conducted on the financial condition and affairs of Mutual Savings Fire Insurance Company, Decatur, Alabama in accordance with the provisions of the insurance laws of the State of Alabama.

April 26, 2001 Planning Memorandum
Important Examination Issues

There were no significant issues discussed in the planning memorandum except for the Jumpstart exceptions noted.

This examination reviewed and cleared the exceptions noted on the Jumpstart Reports.

Other Issues Not Discussed in the Planning Memorandum

There were certain issues identified in the report of examination. None of the items had a material impact on surplus; therefore, no changes were reflected in the financial statements contained in the report. The items detailed below are the most significant or items that can be monitored by the in-house analyst.

- a. Related Party Transactions – Proper disclosure of related parties in Schedule Y. The Company did not include disclosures regarding the ultimate controlling parties. In addition, the Company is operating under a 1974 management agreement. There is no evidence that this agreement has ever been submitted to the Department for approval. Finally, the Company is a party to a 1999 management agreement. The Company has not made the payments required under this agreement.
- b. Inadequate level of detail of reinsurers contained in Schedule F.
- c. Inadequate collateral requirements for repurchase agreement.
- d. The Company did not include the required disclosures in Note 3D of the Notes to Financial Statements regarding impairments of assets. It was noted that the Company had impaired bonds with Enron and Enron-related entities.

OVERALL:

This examination did not result in any changes to surplus

The examiners found the Company officers and employees to be less than responsive to the examiners' requests. It is noted that the two senior officers of the Company, Larry Whitaker and Walter Hughes, did not move to Decatur when they acquired the management of the Company. The examiners speculate that Primesco intended on acquiring a few blocks of business and then attempting to sell the Company for a quick profit. Fortunately, the Department has maintained a watchful eye on management's activities. It is imperative that we monitor all related party transactions and verify compliance with the recommendations contained within the attached Report of Examination.



MUTUAL SAVINGS *Fire*
INSURANCE COMPANY

P. O. BOX 2222, DECATUR, ALABAMA 35609-2222 TELEPHONE: (205) 552-7011 FAX: (205) 552-7284

April 12, 2002

Mr. James L. Hattaway, III, CFE
Examiner-In-Charge
Alabama Department of Insurance
Post Office Box 303350
Montgomery, AL 36130-3350

Dear Mr. Hattaway:

In connection with your examination of the statutory financial statement of Mutual Savings Fire Insurance Company as of December 31, 2000, and for the year then ended for the purpose of stating that the statutory statements present fairly the statutory financial position of Mutual Savings Fire Insurance Company in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance and the National Association of Insurance Commissioners, we confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of preparing this letter, the term "material," when used in this letter, means any item or group of similar items involving potential amounts of more than \$50,000. These amounts are not intended to represent the materiality threshold for financial reporting and disclosure purposes. Notwithstanding this, an item is considered material, regardless of size, if it involves an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We are responsible for the fair presentation in the statutory financial statements of financial position, results of operations, and changes in statutory financial position in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance and the National Association of Insurance Commissioners.

We have made available to you all:

Statutory financial records and related data; and

Minutes of meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

There have been no:

Irregularities involving management or employees who have significant roles in the internal control structure;

Irregularities involving other employees who have a material effect on the statutory financial statements; or

Communications from regulatory agencies concerning noncompliance with, or deficiencies in, statutory financial reporting practices that could have a material effect in the statutory financial statements.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

The following have been properly recorded or disclosed in the statutory financial statements:

Any related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.

Capital Stock repurchase options or agreements on capital stock reserved for options, warrants, conversions, or other requirements.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

Agreements to repurchase assets previously sold.

There are no:

Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the statutory financial statements or as a basis for recording a loss contingency.

Contingent Liabilities:

The Company is not aware of any material contingent liabilities as of April 12, 2002.

The Company has committed no reserves to cover any contingent liabilities, other than as disclosed in your Report of Examination.

The Company had no outstanding liabilities or obligations at December 31, 2000, which were not reported in the Annual Statement for the year then ended.

There is no litigation against the Company that is considered material in relation to the statutory financial position of the Company. For purposes of this section, the Company has excluded litigation for which the only amounts sought relate to benefits within the normal terms of coverage under contracts of insurance issued by the Company, and which are otherwise considered in the actuarial determination of the Company's unpaid claim reserves.

There are no unasserted claims or assessments that our attorney has advised us are probable of assertion and must be disclosed.

There are no material transactions that have not been properly recorded in the accounting records underlying the statutory financial statements.

Adequate provision has been made for adjustments and losses in collection of receivables.

The Company has enforceable legal title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

In accordance with procedures prescribed by the National Association of Insurance Commissioners, assets are stated as follows:

Bonds - at amortized cost (less amortized cost in excess of market for bonds not eligible for amortized cost treatment.)

Agents' balances or uncollected premiums have been presented net as to commissions, dividends, and suspense items with balances over ninety days excluded as an admitted asset in our statutory financial statement.

There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.

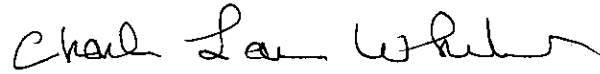
We have complied with all aspects of contractual agreements that would have a material effect on the statutory financial statement in the event of noncompliance.

All material reinsurance transactions have been properly disclosed in our statutory financial statements.

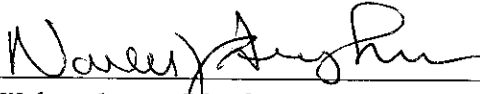
The Company is not aware of any events occurring subsequent to the close of the books for the statutory financial statement of December 31, 2000, which may have a material effect on its financial position.

We understand that your examination was made in accordance with examination standards as established by the Alabama Department of Insurance, and procedures established by the National Association of Insurance Commissioners, and accordingly included such tests of the accounting records and such other auditing procedures as were considered necessary under the circumstances.

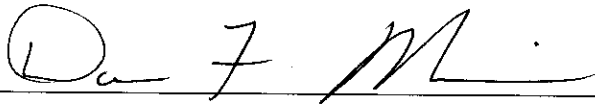
Mutual Savings Fire Insurance Company



Charles Larimore Whitaker, President



Walter Jones Hughes, Executive Vice President



Don Francis Morrison, Senior Vice President and Secretary



Glen Alan Lansdell, Senior Vice President



Ronald John Koch, Treasurer



Susan Elizabeth Adams, Assistant Vice President and Assistant Treasurer



Deborah Marie Holmes, Assistant Vice President



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

April 15, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. C. Larimore Whitaker
President
Mutual Savings Fire Insurance Company
P. O. Box 2222
Decatur, AL 35609-2222

RE: Mutual Savings Fire Insurance Company
Report of Examination as of December 31, 2000

Dear Mr. Whitaker:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2000. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. C. Larimore Whitaker
President
Mutual Savings Fire Insurance Co.
P O Box 2222
Decatur AL 35609-2222

2. Article Number (Copy from service label)

7099 3400 0015 2327 4923

PS Form 3811, July 1999

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

JT May 1994

B. Date of Delivery

C. Signature

X

JT May 1994

☐ Agent
☐ Addressee

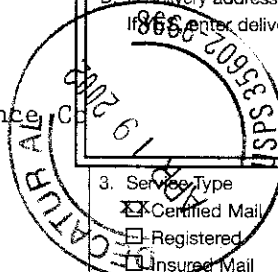
D. Is delivery address different from item 1?

☐ YesIf ☒ No, enter delivery address below:☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

Domestic Return Receipt

102595-00-M-0952



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

**BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA**

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
MUTUAL SAVINGS FIRE INSURANCE COMPANY)
AS OF DECEMBER 31, 2000)

ORDER

ON THE 17TH day of June, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Mutual Savings Fire Insurance Company is a domestic insurer licensed for property and miscellaneous casualty, excluding official surety bonds in the State of Alabama.

FINDINGS OF FACT

1. That on April 12, 2002, the verified Financial Condition Examination Report of Mutual Savings Fire Insurance Company was filed with the Insurance Department.
2. That following receipt of the December 31, 2000 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2000 Financial Condition Examination Report of Mutual Savings Fire Insurance Company shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2000 Financial Condition Examination Report of Mutual Savings Fire Insurance Company is hereby Adopted.
2. That Mutual Savings Fire Insurance Company file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Mutual Savings Fire Insurance Company file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Mutual Savings Fire Insurance Company shall comply with the recommendations set forth in the Report of Examination, and that failure by Mutual Savings Fire Insurance Company to so comply may result in sanctions or administrative action; and further, that Mutual Savings Fire Insurance Company shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 17th day of June 2002.

(SEAL)



D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2002.

Seal

Notary

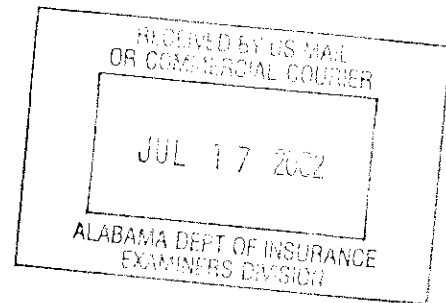


MUTUAL SAVINGS *Fire*
INSURANCE COMPANY

P. O. BOX 2222, DECATUR, ALABAMA 35609-2222 TELEPHONE: (205) 552-7011 FAX: (205) 552-7284

July 16, 2002

Honorable D. David Parsons
Alabama Commissioner of Insurance
Suite 1700
201 Monroe Street
Montgomery, AL 36130



Dear Commissioner Parsons;

In accordance with the Order of the Commissioner dated June 17, 2002, I write to report with respect to the corrective action that has been or will be taken by Mutual Savings with respect to the recommendations made in the Report of Examination of Mutual Savings Fire Insurance Company ("MSF"). The recommendations are responded to in the order in which they appear starting on page 22 in the Report of Examination. References made, in this letter, to Mutual Savings Life Insurance Company use "MSLIC". Our response follows:

Corporate Records: On July 12, 2002, the Board of Directors of MSF authorized, approved and/or ratified all investments of MSF as of June 30, 2002. At future board meetings subsequent, the directors will be asked to approve investment transactions since June 30, 2002 and such will be reflected in the minutes of the meeting.

Holding Company and Affiliate Matters: (i) MSF will improve upon the retention of information and reporting of commissions paid to agents on MSF policies that are combined in the total payment of commissions by MSLIC to its agents. (ii) Future financial statement filings will change Schedule Y (organizational chart) to reflect the ultimate controlling person (the principal shareholders of Primesco, Inc.) as reported in the Annual Registration Statement Form B.

Management and Services Agreements: (i) The Management Services Agreement between MSF and MSLIC dated January 2, 1974 has existed for 28 years and has been through 8 examinations without any comment or recommendation by the Alabama Department, however, this examination has resulted in a recommendation that the agreement be submitted for approval. To comply with this recommendation, MSF is in process of preparing a proposed Management Services Agreement between MSF and MSLIC which will be filed with and will be subject to approval of the Alabama Department. Until such time as a new agreement is approved, MSF and MSLIC will operate in accordance with terms of the old agreement (ii) All management service fees between its parent and affiliates will be disclosed in the Form B filings as required. (iii) MSF will operate in accordance with the terms of the Management Service Agreement

with Primesco including all provisions pertaining to written notices, waivers, and recessions of waivers.

Dividends to stockholders: Since the 1998 dividend was paid without 10 days prior notice to the Alabama Department, MSF has not paid dividends to its stockholder without giving the Alabama Department of Insurance ten days prior notice. MSF will continue to give proper notice.

Fidelity Bond: In the past, primarily due to the number of agents it employs and the fact that all of MSF agents are employees of MSLIC, MSF has made the management determination that the purchase of fidelity bonds and similar coverage would not be cost effective and that it is better for MSF to self insure against such risk. Management has taken the examination recommendation under advisement and may secure future quotes to determine if its policy of self-insuring is still cost effective.

Reinsurance: In future filings, if MSF maintains Lloyd's as one of its reinsurers, MSF will complete schedule F by separately listing each Lloyd's syndicate, including its portion of the risk it is reinsuring, regardless of how small.

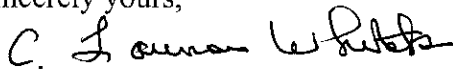
Cash and short-term investments: Although SSAP No. 45 was not effective until January 1, 2001, the 2000 examination report has recommended that MSF comply with this SSAP regarding repurchase agreements. MSFs' bank has agreed to use collateral at least equal to 102% of the purchase price relating to MSF repurchase agreements. Future filings will reflect this collateral value.

Premiums and agents' balances in course of collection: The recommendation in the examination report was related to commissions payable that were subsequently paid to MSLIC. Future filings, will provide the proper netting of receivables and payables.

Subsequent events: In future filings, MSF will properly disclose impairment losses on its assets as required by the NAIC Annual Statement Instructions.

Many of the matters set forth above have been implemented, but others require more time to implement. We expect that all of these changes will be implemented prior to September 30, 2002.

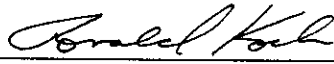
Sincerely yours,



C. Larimore Whitaker
President and CEO

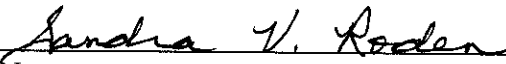
CERTIFICATION

I, Ronald J. Koch, Vice President and Chief Financial Officer of Mutual Savings Fire Insurance Company, do hereby certify that the Report of Examination of Mutual Savings Fire Insurance Company as of December 31, 2000 and related orders, were reviewed by the Board of Directors of Mutual Savings Fire Insurance Company at a meeting duly held on July 12, 2002.

By: 
Ronald J. Koch - Vice President

Sworn and subscribed before the undersigned authority on the 16th Day of July, 2002.


[Seal]


Notary

SANDRA V. RODEN
Notary Public, Morgan County, AL
My Comm. Expires June 30, 2003

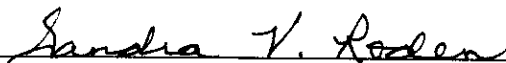
CERTIFICATION

I, Ronald J. Koch, Vice President and Chief Financial Officer of Mutual Savings Fire Insurance Company, do hereby certify that the Report of Examination of Mutual Savings Fire Insurance Company as of December 31, 2000, was filed with all states in which Mutual Savings Fire Insurance Company is licensed, and with the office of the National Association of Insurance Commissioners.

By: 
Ronald J. Koch

Sworn and subscribed before the undersigned authority on the 16th Day of July, 2002.

[Seal]


Notary SANDRA V. RODEN
Notary Public, Morgan County, AL
My Comm. Expires June 30, 2003